C2710-2

© Entire contents copyright 1992 by Crain Communications Inc. All rights reserved.

September 14, 1992

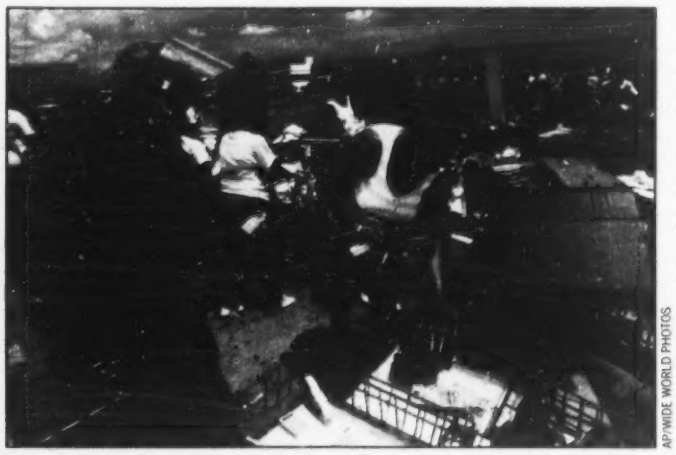
F
#BXBLLBG*******5-DIGIT 20814
JOZ
#040526692 5#01PI21926 99
STATISTICAL REF INDEX
4520 EAST-WEST HWY SU 800
BETHESDA MD 20814

Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$10 An Issue/$150 A Year

Union pension assets will help rebuild Florida



AP/WIDE WORLD PHOTOS

Union pension fund assets will be used to help South Florida rebuild following Hurricane Andrew.

AFL-CIO trusts offer up to $60 million for housing

By Curtis Vosti

The AFL-CIO will invest up to $60 million in pension assets for housing projects to speed Florida's recovery from Hurricane Andrew.

The state pension fund, however, is shying away from any involvement.

The AFL-CIO, through its housing and building trusts, is finalizing three projects to help the estimated 250,000 homeless residents and 117,000 housing units slammed by Andrew, which caused an estimated $20 billion in damage in South Florida.

According to Stephen Coyle, chief executive officer for the trusts, which control a combined $820 million from 320 pension and employee benefit funds, the projects will include government-insured rehabilitation and permanent financing.

"The AFL-CIO and the trusts will invest in South Florida," Mr. Coyle said, "but we will be looking for the secured investment."

Two projects are likely to be approved by the first week in October:: rehabilitation and construction loans to get people back into salvageable homes and permanent financing for a multifamily development the trust has tried to start since February.

"Ironically, one of the side effects of the devastation is that rental housing — which some thought iffy in a soft market — is now a viable investment," Mr. Coyle said.

A third project, likely to be approved within 90 days, is for permanent financing for affordable single-family housing that already had received the necessary permit, zoning and environmental approvals but had been stalled because of the then-oversupplied market.

The long-term investments seem to be the same approach the trusts used in South Central Los Angeles, where they have pledged $75 million toward permanent multifamily residential and commercial projects.

Mr. Coyle and Mike Arnold, director of investor relations, met Sept. 9 with representatives from the Miami Building and Con-

See **AFL-CIO** *on page 33*

AT DEADLINE

Stadium deal advances

The possibility of union pension funds financing a new stadium for the San Francisco Giants is one step closer to reality.

The union funds' proposal hinges on someone buying the team and keeping it in California. Owner Bob Lurie had said a consortium of Florida investors was buying the Giants and moving the team to Tampa. Now, however, a group recruited by San Francisco Mayor Frank Jordan says it's willing to buy the franchise and keep it in the area.

Wisconsin commits to fund

The State of Wisconsin Investment Board committed $50 million to the Commonwealth Diversified Trust, sponsored by Commonwealth Capital Strategies and managed by Robert W. Baird. The trust will invest in housing, education and employment opportunities nationwide; Wisconsin's investment will be made in-state.

U.K. trustees seek change

British trade union pension fund trustees unveiled Sept. 9 a charter for pension fund democracy, partly in response to Robert Maxwell's raiding of his company's pension funds.

The charter calls on the government to reform U.K. pension law in seven areas. Among them: Neither contribution rates nor benefits should be altered unilaterally; and fund assets must be separated from the assets of employers, safeguarded from interference by employers and used for the sole benefit of employees.

SEI exec joins Salomon

Gene Ferguson joined Salomon Brothers Asset Management as vice president of institutional marketing. He was vice president and senior consultant at SEI Capital Resources.

Pension agency leads effort to sell TWA

By Joel Chernoff and Anne Schwimmer

Trans World Airlines Inc.'s unions and creditors — apparently led by the Pension Benefit Guaranty Corp. — are shopping around the beleaguered airline, but it looks like an unlikely sale.

A TWA pension fund is selling closed-end realty units. Page 3.

A real bid to purchase the airline could help shore up financing for the its $1.2 billion in pension underfunding and could undermine the negotiating position of TWA owner Carl Icahn. PBGC officials are frustrated with efforts to get Mr. Icahn to stand behind future payments to TWA's pension fund.

PBGC officials claim Mr. Icahn has not made a realistic offer to backstop TWA's pension obligations. They charge he twice has reduced an earlier, oral offer to provide collateral of $150 million, on top of TWA's international route authorities and a maintenance facility.

In a letter sent to Mr. Icahn last week, PBGC Executive Director James A. Lockhart urged the TWA chief to come to Washington with "a serious and realistic offer."

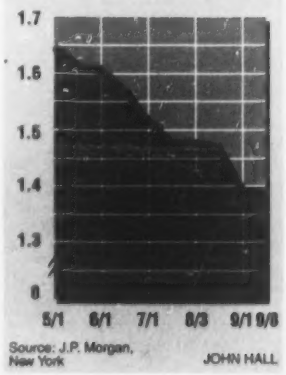
Spokesmen for Mr. Icahn say he has been negotiating in good faith. Terry Deneen, a pension lawyer who represents Mr. Icahn, said the TWA owner's offer to guarantee payments to the pension fund was reduced when,

See **TWA** *on page 34*

AP/WIDE WORLD PHOTOS

TWA may be shopped around by the Pension Benefit Guaranty Corp. and other creditors, but nobody's buying.

The dollar's slide against the mark



Source: J.P. Morgan, New York

JOHN HALL

Dollar's drop recasts strategies

By Christine Philip

The falling dollar is pushing some pension funds to eliminate passive currency hedging.

In addition, some pension executives might look like heroes for decisions made months earlier to move into such asset classes as international bonds, while others are trying to take advantage of the weakened dollar by giving domestic fixed-income managers permission to invest in international bonds.

In the currency area, the $67 billion California Public Employees' Retirement System, Sacramento, switched to active currency overlay from passive hedging, and the $14 billion Alaska Permanent Fund, Juneau, halted its passive currency program with the intent of devising a more effective one.

(A currency hedge will protect a portfolio should the dollar rise when the stock is sold and the foreign currency converted back to dollars. If the dollar falls, the portfolio is left with a loss, if hedged, because the foreign currency is delivered at an unfavorable exchange rate. A policy of passive hedging on a portfolio keeps the fund hedged at all times, regardless of currency movements. Tactical or active hedging is used selectively to hedge the portfolio only when necessary to protect the portfolio of foreign stocks in times of dollar strength.)

The California fund hired BEA Associates and Pareto Partners, both of New York, to hedge 25% of the fund's $7 billion international equity portfolio. The fund previously had used passive hedging strategies, which were not allowing the fund to realize the real benefits of a weak dollar, said DeWitt Bowman, chief investment officer.

Bill Means, chief investment officer of the $14 billion Alaska Permanent Fund, Juneau, said his fund's program was too restrictive (it is restricted by law to hedge only existing portfolios), and forced the fund to be in the market all the time.

"We should only hedge when we are facing a period of pro-

See **Dollar** *on page 35*

NEWS DIGEST

Some trustees of Atlanta's General Employees' fund say their quest for knowledge has been stymied. Page 6.

FINANCING

Pension funds increasingly are providing capital for corporations' and developers' projects. Page 2.

INTERNATIONAL

The falling U.S. dollar has some investors rethinking their hedging policies, while the world's markets await the French vote on the Maastricht treaty. Pages 1 and 33.

BSN's attempts to restrict shareholders' voting rights is being opposed by U.S. investors. Page 3.

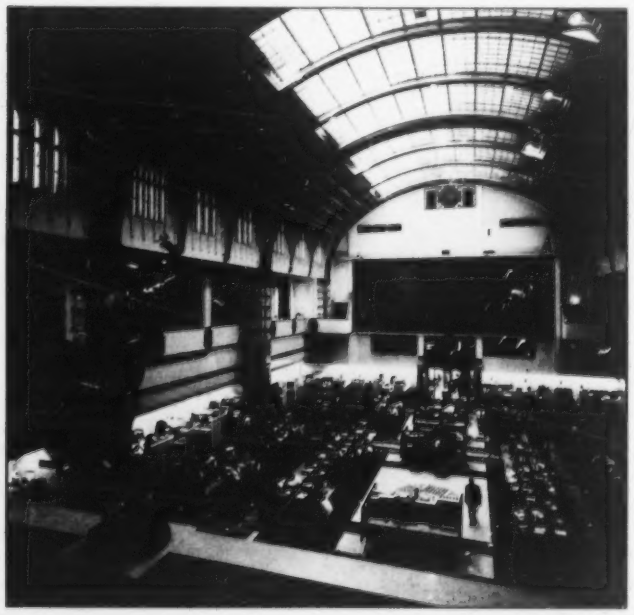
REAL ESTATE

Boeing settled DOL charges about the sale of Fund F units between two company pension funds. Page 2.

A TWA pilots fund has solicited bids for its units in three closed-end funds. Page 3.

SPECIAL REPORT: FOREIGN STOCK EXCHANGES

European stock exchanges, including the Amsterdam exchange shown below, face a struggle for market share that already has affected trading and could alter the cost to investors and issuers worldwide. Page 17.



DEPARTMENTS

Classified	32	Letters	13
Commentary	15	Opinion	12
Frontlines	8	People	25
Hirings	30	Statistically speaking	26

Vol. 20, No. 20 — Pensions & Investments (ISSN 1050-4974) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

The cover of our Aug. 31 issue, "The 1992 Real Estate Investment Managers Directory," was created by AVID Productions, Inc.

Consultant survey mailed

Work has begun on *Pensions & Investments*' annual survey of investment management consultants. The questionnaires were mailed Aug. 21, and are due Sept. 27. The resulting profiles will be published in the Nov. 9 issue of *P&I*. If you should be included in the directory, but have not received a questionnaire, please call Karen Waters, directory coordinator, at (312) 649-5240.

Maxwell bankruptcy to aid pension funds

Personal assets may go to looted plans

By Norma Cohen

LONDON — Kevin Maxwell's bankruptcy will give trustees of looted Maxwell-controlled company pension funds a better chance of recouping some of the missing assets.

The move will allow trustees for the estate of Kevin Maxwell — the late Robert Maxwell's youngest son — far more access to information about his personal assets. If trustees locate Kevin Maxwell's personal assets, that money would replace some of the 406.6 million pounds (about $810 million) Robert Maxwell was accused of raiding from various Maxwell company pension funds.

The bankruptcy stemmed from a court-ordered payment of the 406.6 million pounds by Kevin Maxwell to the creditors of Bishopsgate Investment Management Ltd. Bishopsgate is the Maxwell-owned investment management company that controlled pension fund assets of other Maxwell companies.

Kevin Maxwell was declared bankrupt by the British High Court this month after the July Bishopsgate judgment.

Kevin Maxwell; his brother, Ian; and Larry Steve Trachtenberg, managing director of Bishopsgate, were arrested June 18 on fraud charges. The brothers were managing directors of Maxwell Communications Corp. and senior executives of Mirror Group Newspapers PLC prior to the mysterious death Nov. 5 of their father.

Peter DuBoisson, a partner with BDO Binder Hamlyn — the London accounting firm appointed by the court to take control of Kevin Maxwell's assets — said he intended to question "as many people as required" to help identify assets.

The inquiry is expected to take Mr. DuBoisson to Liechtenstein, where personal trusts controlled by Robert Maxwell were based, as well as to the United States, where the trusts are believed to own interests.

Under British bankruptcy rules, Mr. DuBoisson can interview anyone who might have any information on Maxwell assets.

Mr. DuBoisson's role is to identify and realize for creditors existing assets and any that have been disposed of by Mr. Maxwell in the past five years. ■

AP/WIDE WORLD PHOTOS

Kevin Maxwell was declared bankrupt following an $810 million judgment against him.

Project financings explored

Pension investors fill void left by traditional funding sources

By Marlene Givant Star

At a time when tax incentives for finance companies and other traditional project financiers have dried up, companies and developers are turning to pension funds for capital.

Pension funds have invested $2 billion to $2.5 billion in equity in energy-related project financings, according to Arthur Carlson, managing director of Trust Co. of the West, Los Angeles. He didn't quantify investments in industrial deals because pension funds typically count those as private placements.

TCW is among several firms attempting to raise an estimated $1.5 billion in project finance limited partnership funds. TCW hopes to raise $500 million in oil and gas and cogeneration equity and mezzanine limited partnership funds by late fall, leveraging its experience managing a cogeneration separate account for a large union pension fund.

"There are not a lot of project finance funds out there. It's relatively new. Traditional lenders are not available, so some of these firms have now tried to tap the pension fund market," said Jay Fewel, equity investment officer of the $14.5 billion Oregon Public Employes Retirement System, which invests 8% to 9% in alternative investments, including project finance.

"Project finance is something pension funds are turning to as an interesting new asset class," said John Buehler, vice president-development and general counsel of Energy Investors Inc., Boston. The firm manages an equity limited partnership fund investing in cogeneration projects and is rumored to be raising a second fund.

The Deerpath Group, Lake Forest, Ill., is seeking to raise at least $500 million from tax-exempt investors for a diversified project finance private equity fund. Oregon officials confirmed their fund is one of the investors, and others are believed to be the state pension fund in Louisiana and the NYNEX Corp. pension fund. Officials at the California Public Employees' Retirement System said they are talking to Deerpath, but have not formally committed to the fund. The fund's first closing is expected by late summer.

"The big thing has been energy; however we're seeing more projects with industrials. Those type projects can be just as good in terms of returns and quality," said Tom DePre, managing director-investment banking, Donaldson, Lufkin & Jenrette Securities Corp., New York.

See **Projects** *on page 31*

Boeing must repay pension plan

By Terry Williams

SEATTLE — The Boeing Co. must pay its pension plan $22 million and guarantee the value of the plan's investment in a beleaguered commingled real estate fund to settle Labor Department charges the company violated ERISA.

The Department of Labor charged Boeing violated the Employee Retirement Income Security Act when a defined contribution plan sold units in a realty fund for $55 million to a defined benefit plan.

Boeing's Voluntary Investment Plan sold 138,228 units in Fund F, a $478 million open-end commingled real estate fund sponsored by First National Bank of Chicago, to the Boeing Co. Retirement Plan.

Defendants in the Labor Department's complaint, filed Sept. 1 in U.S. District Court in Seattle, are members of the investment committee of both plans. In agreeing to a consent judgment, the defendants did not admit or deny any of the allegations.

Boeing pension officials would not comment. In a prepared statement, Boeing officials said: "The dispute involved the application of technical procedural requirements of federal pension laws to a 1988 real estate investment.

"While Boeing disagreed with the Department of Labor's interpretation of these procedural requirements, it decided to resolve the matter in the interest of avoiding litigation costs."

The Labor Department said in its complaint that the defendants "represented a party whose interests were adverse to the interests of the Retirement Plan or the interests of its participants and beneficiaries, in violation of ERISA."

The Labor Department noted that, at about the same time the Boeing deal was in the works, Fund F had redemption requests of $62 million pending, but available cash of only $23 million to meet the requests.

Twenty-three pension funds

See **Boeing** *on page 35*

Buy-out boutiques woo new partners

Firms seek $9.7 billion as capital dries up

By Anne Schwimmer

The tables have turned in buy-out fund raising.

Once, general partners had investors lined up around the block for a piece of the action. Now, the limited partners — pension funds — are being inundated with new proposals from cash hungry buy-out boutiques. Sixty partnerships are trying to raise $9.7 billion for non-venture capital related equity investments, according to The Private Equity Analyst, a West Newton, Mass., newsletter.

(Some 11 buy-out funds have raised a total of $2.531 billion during the first six months of 1992.)

Available capital is scarce. Some investors, such as the Washington State Investment Board, are scaling back their alternate investment allocations. Compounding that scarcity is general partners' inability to leverage their equity as much as they once could, so they need to raise new money more frequently.

Where once a company could have been purchased for 5% equity and 95% debt, now an initial equity investment of 25% of the purchase price is closer to the norm.

That means $1 billion doesn't stretch as far.

It also means pension executives who hold the purse strings can be more selective and can hold out for better terms before participating in the partnerships.

"The only time a fund has an opportunity to negotiate better terms is when there's difficulty raising money. General partners do not generally go around making gifts to limiteds," said Basil Schwan, executive director of the Washington state board. Washington's $16.5 billion defined benefit plan has cut back its combined leveraged buy-out and venture capital allocation to 9% from a high of 12%.

"When you're at the bottom of the cycle, it's a difficult fund-raising environment," said Russ Steenberg, vice president-corporate finance at AT&T Investment Management Corp., which oversees the $35 billion American Telephone & Telegraph Co. defined benefit plan. "Terms and conditions are different than what they have been."

Among the new features being incorporated into the partnership agreements:

- Priority returns. Limited partners get first crack at returns from a maturing investment. Previously, returns were allocated to both limited and general partners simultaneously. Now, a typical requirement might be that where a 10% to 30% return is ultimately expected, the first 10% must be distributed to the limited partners before the general partners receive their distribution.
- Side-by-side investing. Limited partners have the chance to invest additional money along with the partnership in given deals, but outside the partnership agreement. Under some arrangements, this investment is made without paying management fees or sharing profits with the general partner.
- General partner investments. General partners are expected to put up more of their own money.

"General partners are putting more money in to show their commitment to the deal," said Douglas Le Bon, managing director of Pathway Capital Management, a Los Angeles-based firm that provides investment management and consulting services in the alternative investment area.

- Advisory committees. Limited partners are looking for "the right to comment (on individual deals) more than anything else," said

See **Buy-out** *on page 33*

Buy-out fund closings

(First half 1992, $ millions)

	Raised in 1992	Total to date
Atlantic Equity Partners L.P.* First Atlantic Capital Ltd., New York	$25	$50.3
Castle Harlan Partners II L.P.* Castle Harlan Inc., New York	160	160
DLJ Merchant Banking Fund L.P.* Donaldson, Lufkin & Jenrette, New York	550	550
GS Capital Partners L.P. Goldman, Sachs & Co., New York	1,000	1,000
Hellman & Friedman Capital Partners II L.P.* Hellman & Friedman, San Francisco	216	837
Horizon Master L.P., L.P Brentwodd Associates, Los Angeles	54	54
IMR Fund L.P.* Jacobs Investors Inc., New York	420	420
Kidd, Kamm Equity Partners L.P.* Kidd, Kamm & Co., Greenwich, Conn., & Los Angeles	30.5	113.5
NCO Investors II L.P. Nagelvoort & Co., New York	3.3	5.3
Pfingsten Executive Fund L.P.* Pfingsten Partners L.P., Deerfield, Ill.	20	20.3
Texas Growth Fund TGF Management Inc., Austin, Texas	52	52

*Fund is still open.
Source: The Private Analyst, West Newton, Mass.

KIMBERLY MART

MICHAEL A. MARCOTTE

BSN, owner of the Evian and Dannon brands, is coming under fire from U.S. institutional investors.

Parlez-vous proxies?

U.S. investors fight French firm's voting rights limits

By Marlene Givant Star

PARIS — U.S. investors are going out of their way to oppose a proxy resolution limiting shareholder voting rights at BSN S.A. in a year when many U.S. investors are voting foreign proxies for the first time.

BSN, a Paris-based food and beverage conglomerate, will hold a special shareholder meeting Sept. 30 to seek approval to ban any investor from exercising voting rights of more than 12% of its equity.

Under BSN's proposal, voting rights would be limited — regardless of a holder's actual ownership level — to a maximum of 6% for shares with standard voting rights and 12% for shares that have been held for at least two years and therefore have double-voting rights.

Restrictions would be waived if a single shareholder owned at least 90% of the stock. Approval is needed from two-thirds of stockholders.

The Association pour la Defense des Actionnaires Minoritaires, known as ADAM, is hoping to mobilize U.S. and U.K. investors to oppose the voting rights limitation.

ADAM, established in France last year to defend minority investors in a corporate wrangle over the Au Printemps department store chain, contends the proposal entrenches management and might depress the price of the stock as speculators desert BSN. And, if BSN is successful, ADAM might try to invoke a securities rule that states that when a company is significantly restructured, it might have to offer to buy back minority shareholders' stock.

Several U.S. institutional shareholders say they oppose the voting rights limitations, contending they are a takeover defense. Still, passage is virtually certain because French shareholders — which own the majority of BSN's stock — traditionally vote with management.

"Naturally, we would be voting against that. . . . It flies in the face of everything we believe in," said Mary Ellen Andersen, director-corporate and investor relations of the $10 billion State of Connecticut Trust Funds, Hartford. Connecticut owns 30,000 shares of BSN, and is making a special effort to obtain the proxy from its custodian.

Ms. Andersen believes it was no accident the company — which owns Dannon yogurt, Evian mineral water and Kronenbourg beer — proposed the change in August, rather than at its spring annual meeting.

"Everybody is on vacation now. (France) kind of shuts down in August. I'm sure it was a management decision to do that," Ms. Andersen said.

Other U.S. shareholders also oppose the move.

"We have voted against both (provisions) consistent with our policy set by our trustees. We're for one share-one vote. We apply

See **BSN** *on page 32*

Pilots fund selling realty shares

By Terry Williams

WASHINGTON — A pension fund for pilots at troubled Trans World Airlines has taken the unusual step of soliciting sealed bids from prospective buyers for its $24 million worth of shares in three closed-end funds.

G. Leslie Smith, executive administrator of the Trans World Airlines Pilots Trust Annuity Plan, confirmed the plan has solicited bids, but declined to identify the funds. *Pensions & Investments* has learned, however, the pension fund is selling its shares in TCW Realty Advisors' Realty Fund IV, a core property fund invested nationally. In addition, it likely is selling shares in two funds managed by State Street Bank & Trust Co./Aldrich, Eastman & Waltch L.P., Boston.

"My understanding is they are looking at selling all of their real estate," said Bruce Ludwig, senior partner with TCW Realty, Los Angeles.

According to Mr. Ludwig, TWA is selling its shares in Realty Fund IV because it needs liquidity, not because of dissatisfaction with the performance of the fund.

"They want to get it as liquid as possible, given the stories about TWA today," said Mr. Ludwig. He declined to say how much the plan had invested in the fund.

Officials at AEW and State Street Bank would not confirm the TWA pension fund was selling shares in their funds.

According to the 1992 Money Market Directory of Pension Funds and Their Investment Managers, the TWA plan had assets totaling more than $886 million as of December 1990. Real estate makes up 9% of the portfolio, according to the MMD.

Information on the three commingled funds will be available to prospective bidders by Oct. 1. Sealed bids will be accepted until Nov. 9. No other details of the sale were disclosed.

Establishing an efficient marketplace for these types of transactions to occur has been a dilemma for the pension real estate industry.

"No one has ever come up with an efficient way," said Robert Kilroy, vice president-asset management with State Street Bank.

Shares of closed-end funds usually change hands through a private one-on-one transaction between buyer and seller.

"Prior to this, (shares) have been placed by those (consultants) that are close to the situation," said Blake Eagle, consultant with The Frank Russell Co., Tacoma, Wash. "Consultants have func-

See **Bidding** *on page 35*

REAL ESTATE

Crowded Europe gets a different realty picture

■ While increasing vacancy rates and declining absorption continue to plague major North American real estate markets, Europe is enjoying some heady times.

A survey of office space in 51 cities in nine countries, conducted by ONCOR International, a real estate services firm in Houston, showed the 15 European markets surveyed accounted for about 75% of all new construction as of June 30. Construction in U.S. markets dropped 68% between mid-1991 and mid-1992.

Five U.S. cities — New York, Chicago, Los Angeles, Washington and Houston — account for 50% of all available space internationally. Europe's overall office vacancy rate is 4.8%, vs. 20.4% for the United States and 21% for Canada. In Europe, only London has a large amount of available space and high vacancy rates.

ONCOR also found that, at current absorption rates, Europe has only a 1.4-year supply of office space, while the United States has a 23-year supply and Canada, a 61-year supply.

Rent, meanwhile, often is higher in Europe. Although New York City's office space continues to be the most costly in the United States, office rents in several European cities — including London, Frankfurt and Amsterdam — are more than triple those in New York.

— Nancy K. Webman

MARY HERLEHY

The skyline of Chicago, one of five U.S. cities that together make up half of all office space internationally.

PENSION FUNDS

Business effort reaches out to L.A. students

■ The pension investment group at Southern California Edison Co., Rosemead, Calif., has just completed its first academic program for young adults.

The Summer Business Institute program, part of the effort to rebuild Los Angeles following the May riots, lasted six weeks and featured several field trips for 34 high school students from South Central Los Angeles and East Los Angeles.

Addressing the first students to complete the program, Charles Valdez, chairman of the $67 billion California Public Employees' Retirement System, said: "You have learned about the stock market and the productive use of capital investments. All of us have learned that to rebuild L.A. we must make an investment in human capital."

Rick Yamamoto, director-pension investments for the $2.5 billion fund at Southern California Edison, said finding teachers was made easier through the help of CIC Asset Management, a Hispanic-owned investment advisory firm in Los Angeles.

Students learned to develop and present a business plan for an enterprise they could undertake during the academic year. The businesses included selling bakery goods on campus, a party decoration service and distribution of earthquake preparation kits.

The students received a stipend based on attendance and competed for scholarships based on the results of a stock market contest and the business plan presentations.

Financial contributors to the institute included: Southern California Edison; Capital Group, Los Angeles; Trust Co. of the West, Los Angeles; Hotchkis & Wiley, Los Angeles; Payden & Rygel, Los Angeles; Dimensional Fund Advisors, Santa Monica, Calif.; CIC Asset Management, Los Angeles; NWQ Investment Management Co., Los Angeles; Bank of America, San Francisco; and the Los Angeles office of Morgan Stanley Co. Inc.

— Steve Hemmerick

SOCIAL INVESTING

System created for green rating

■ Eco-Rating International, a new company in Zurich, Switzerland, has developed an environmental rating system for companies held by "green" funds.

Robert Chanson, an environmental lawyer, founded the company in June after perceiving a need for a scientific, rational ecological rating for companies in all industry sectors worldwide.

"Many green funds also consider pragmatic or ethical factors, such as whether women are in top management positions, in deciding whether to invest in a company. But you can't mix two different kinds of evaluation systems. We really saw the need for a scientific, objective ecological rating system, that excluded subjective concerns," said Mr. Chanson.

The Eco-Tech Rating System assigns a value to each product or activity of an environmentally related company. The system screens for any negative effects and only gives positive scores to activities and products that produce a net environmental gain, such as manufacturers that produce energy-efficient appliances and save energy in the production process. The scores for each activity are totaled, giving an overall ecological rating to a company.

The total score for each company in a portfolio is combined to determine how "green" a fund really is. "In our view," said Mr. Chanson, "the Eco-Tech rating helps an investor to decide whether he is getting the maximum environmental benefit with his investment. It may also compel a green fund to improve the overall environmental quality of the companies it includes in its portfolio."

— Christine Philip

BENEFITS

Multiemployers cool to flex plans

■ Though single-employer plans offering flexible benefits have grown to several thousand today from 200 in 1984, multiemployer plan sponsors have shied away from the option.

Multiemployer trustees have looked at flexible benefits or cafeteria plans as no more than a sophisticated method of cutting benefits and too complicated to administer, according to a report prepared for The Segal Co., "Flexing Multiemployer Plans."

The report said flex plans make participants aware of the real cost of benefits and allow plan sponsors to respond to the diverse needs of a changing work force, offering benefits that might otherwise not be available.

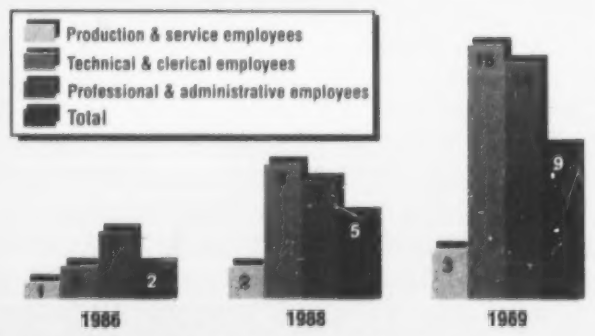
Though some sponsors feel offering employees freedom of choice can result in poor choices or a loss of benefits, the report said the opposite is true. Most employees respond positively to flexible benefits and, with proper communication and plan design, do retain adequate coverage.

The most difficult part of financing flexible benefits for multiemployer plans has been the benefit credits. Benefit credits represent an allowance to participants used to "buy" benefits under the plan. Additional credits can be given for benefits not used. According to the report, the credits can be structured to encourage employees to buy options that accomplish the plan sponsor's objective.

— Sabine Schramm

Percent of full-time employees eligible for flexible benefits plans (1986-'89)

(Percentages shown)



Source: Bureau of Labor Statistics. The BLS did not release the survey in 1987. The 1989 edition is the most recent available.

CHRIS ROY

INTERNATIONAL

Canadians gorge on U.S. stocks

■ Freed from regulations restricting their foreign investing, Canadian pension plans are pouring money into the U.S. stock market just when most other foreign investors are backing off, according to a report from the Securities Industry Association.

In the first quarter of 1992, Canadian investors purchased $892 million worth of U.S. equities, while in the fourth quarter of 1991, they already had purchased $1.2 billion worth, the report said. Canadians have bought $6.1 billion worth of U.S. stocks since the third quarter of 1990.

The Canadian pension funds are experiencing their first taste of freedom since being set loose to put 16% of their portfolios in foreign markets for this year. By 1994, they will be allowed to place 20% of their assets in foreign securities (*Pensions & Investments*, July 11). Also pushing Canadians into the U.S. market is the poor return of Canadian equities — -2.6% for Canada in the year ended June 30 vs. 14% for the United States, according to Morgan Stanley Capital International.

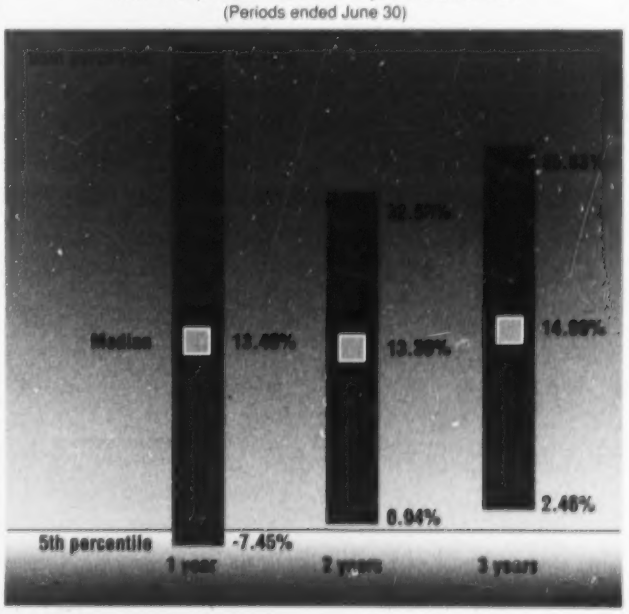
Meanwhile, other foreign players are taking a more cautious stance, anticipating the U.S. stock market might be topping off after a long and profitable run. "The investment posture of European and Japanese investors was decidedly negative," the report said.

Europeans sold $1.5 billion of U.S. equities, while Japanese investors sold a record-breaking $3.3 billion worth in the first quarter.

— Anne Schwimmer

Tremont universe of limited partnerships

All figures are after expenses and management fees but before performance fees.
Returns for periods more than one year are annualized.
(Periods ended June 30)



INVESTING

Cloud hanging over tobacco stocks starting to clear

■ The smoke may be clearing for tobacco stocks, according to a report by Standard & Poor's Corp.

Although tobacco issues have only tracked the market so far this year after posting solid gains in the past two years, S&P predicts the market soon will recognize the value of the sector. Despite declining domestic consumption, markets in Asia and Europe are picking up the slack.

After gyrating in response to the U.S. Supreme Court's late June ruling in a key product liability case, share prices have stabilized.

The court ruled that warning labels exempt tobacco companies from liability in cases where smokers charge they were not adequately warned of the risks of smoking after 1969, four years after labels were required. Plaintiffs may not base their suits on advertising or promotions published after 1969.

S&P thinks tobacco companies won on what were the most damaging issues. In addition, the ruling narrowed areas of litigation available to plaintiffs.

"Without overwhelming evidence of industry wrongdoing, juries are not likely to be any more receptive to smokers' suits than they have been in the past," said Kenneth Shea, a tobacco equity analyst, in the latest issue of The Outlook, an S&P investment advisory newsletter.

Over time, the price/earnings ratio of tobacco stocks should expand to at least the market multiple; currently the shares are selling at a 17% discount to the S&P 500, he said.

He recommends **American Brands Inc.**, **Philip Morris Cos.** and **RJR Nabisco Inc.**

— Marlene Givant Star

Tobacco stocks such as RJR Nabisco, which manufactures the products shown above, have a bright outlook, according to S&P.

INTERNATIONAL

Stock picks not managers' forte

■ Ennis Knupp & Associates, Chicago, used its 1992 Survey of Non-U.S. Stock Market Suitability to show managers apparently do not add value through stock selection in non-U.S. markets.

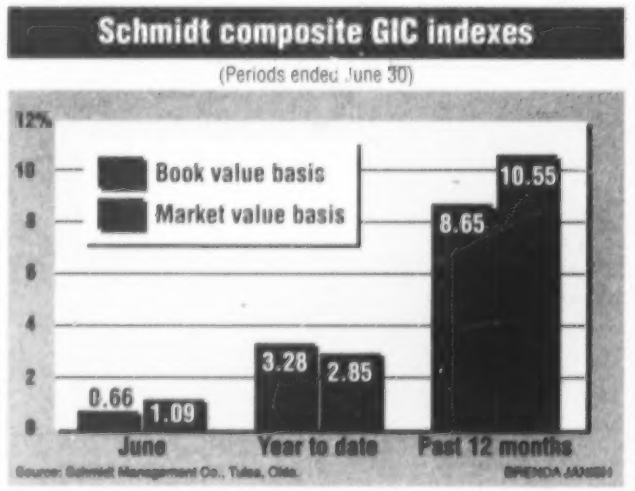
EK&A looked at analyses by the WM Co. PLC, Edinburgh, Scotland, which showed the median manager's stock selections in individual markets failed to outperform the respective local market index in all but a few cases.

EK&A theorized that for most international managers, the goal is to outperform the Morgan Stanley Capital International Europe Australia Far East Index. So, a successful manager might try to pick stocks worldwide that would increase the possibility the total portfolio would outperform the EAFE. Such selections would be made without regard to whether they would help the manager outperform local indexes.

To test the relevance of this theory, EK&A surveyed 25 managers to determine the extent to which their security selection within a market is influenced by a need to outperform the EAFE rather than a local index. The EAFE benchmark had virtually no effect on stock choices for 40% of respondents in particular markets. The EAFE benchmark caused 55% of those surveyed to choose "somewhat different" stocks in a market than they would otherwise.

EK&A's conclusion is that "These responses suggest that the naive interpretation of the median manager's indifferent stock selection record, that the typical manager lacks stock selection skill within markets, is true."

— Christine Philip



MONEY MANAGERS

Adviser sets quality as top priority

■ Thomas M. Heller is a man with a mission: "to serve the 'total quality management' community with a relentless pursuit of quality in our products and process."

His products are not automobiles or toasters. They're active and passive equity portfolios of companies dedicated to "TQM principles."

To construct portfolios, his new firm, Total Quality Asset Management Inc., Lincoln, Mass., actively manages a universe of publicly held TQM companies from which it identifies stocks with valuation levels that either "fail to reflect anticipated earnings quality opportunities or excessively discount past earnings disappointments," Mr. Heller said.

Clients may invest passively in the whole universe or actively in a selection of companies chosen from the universe.

Quality management provides a framework for refining controls and procedures of an organization.

A key tenet of quality is efficiency, and in that regard Mr. Heller practices what he preaches. By meeting with vice presidents of quality control at corporations around the country, he'll be able to conduct investment research and market his services at the same time.

Much of the firm's methodology is based on the work of Mr. Heller's mentor, Shoji Shiba, a professor at Tsukuba University in Japan and at the Massachusetts Institute of Technology's Sloan School of Management.

Because Mr. Heller's background is in product management — he was in product management at IBM Corp. and Lincoln Electric Co. — Total Quality has appointed a bank in the Boston area to apply his quantitative models. He could not name the bank because contracts haven't been signed as yet.

— Marlene Givant Star

CONSULTANTS

Ex-Baring exec tries consulting

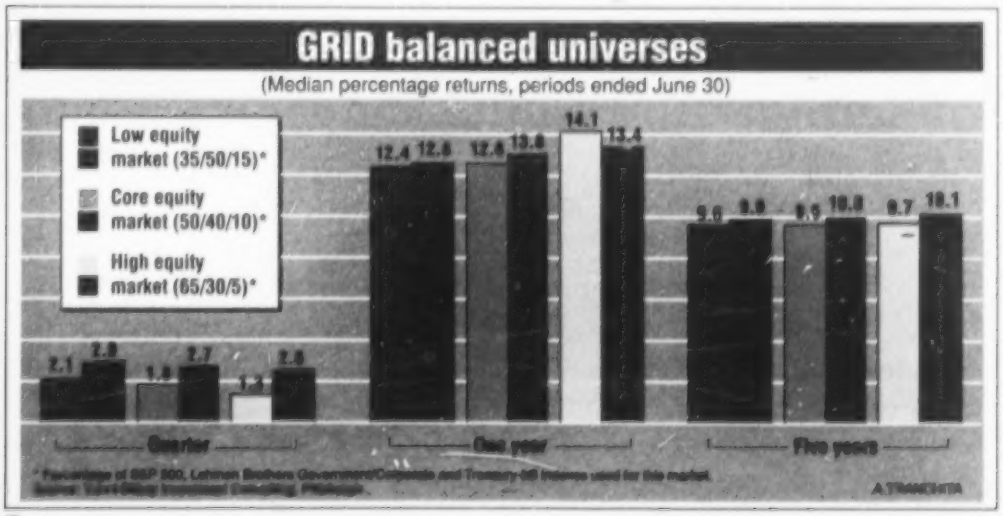
■ John Morrell, retired chairman of Baring International Investment Ltd., London, has started an investment consulting firm, John Morrell and Associates, London.

He will be seeking clients in the United States and the United Kingdom.He started his consulting firm July 1 with four others.

Mr. Morrell said that since his retirement from Baring last year, he had been involved in the development of the business school at Oxford University, and with a charity in Indonesia, but found he missed the investment business.

Mr. Morrell has strong opinions about how cross-border investing should be structured, based on his experience with Baring. In particular, he believes active management can add significant value outside the United States, if properly structured.

— Michael J. Clowes



BENEFITS

Companies offer early retirement

■ Early retirement windows were offered by 38% of the largest U.S. industrial companies in 1990 or 1991, according to a survey by The Wyatt Co., Washington. Most Fortune 50 industrial companies were included in the survey.

In 1991, 14 companies offered a window and seven of those also offered early retirement in 1990. During the past 10 years, 38 companies (76%) offered at least one retirement window and 56% offered more than one window.

Of those 38 companies, six (16%) used a cash incentive, 20 (52%) used a pension incentive, and 12 (32%) used a combination. A window period of from one to three months was offered by 31 companies (82%) for their most recent offer. Eligibility for the retirement offer was based on age and/or service requirements for most companies. For 13 companies (34%), the minimum age requirement was 55; for 10 companies (39%), the minimum service requirement was 10 years.

Desired staff reductions appear to have been achieved through the 1991 windows offered. Of 13 companies responding concerning their goal for 1991 programs, 10 reported the number of employees taking up the offer met the company's objectives.

— Christine Philip

EDUCATION

IIT plans course for new degree

■ The opening bell of the exchange floor will be ringing in school this fall.

In November, the Stuart School of Business at the Illinois Institute of Technology will begin offering a master's of science in financial markets and trading, the first degree program in the study of the capital markets.

M. Zia Hassan, Stuart School dean, said the new degree will offer more concentration in the area of investments and markets than a master of business administration can. "We think we will attract students who already have an MBA and who want to specialize further," he said.

The curriculum consists of 16 courses, 14 of which must be completed to receive the degree. The school will charge $1,100 per course, or about $15,000 for the entire program, said J. Clark Hesson, director of the program. Messrs. Hassan and Hesson estimate the program will attract 50 to 100 students in the beginning, when four courses will be offered.

Mr. Hesson said the program covers some similar material as the program for a certified financial analyst, offered by the Association for Investment Management and Research, Charlottesville, Va.

— Barry B. Burr

London, Continental exchanges square off

By Joel Chernoff

Dramatic changes are under way in European markets, as London and the Continent duke it out for market share.

Key shifts identified in this story include:

- Improved clearance and settlement
- Lower commissions and taxes
- Computerized order-driven trading in Paris
- Frankfurt's IBIS system for blue-chip stocks
- Amsterdam's struggle to win back trades
- The fight over market transparency
- London's "interprofessional" market idea

While France votes this Sunday in a closely watched referendum on the fate of the European Community, European stock exchanges face a similar struggle in deciding whether they can live together harmoniously.

At issue is the future shape of European exchanges, and the costs to investors worldwide and companies seeking to raise capital. The current battle for market share between the London Stock Exchange and its Continental competitors is resulting in dramatic changes in how stocks are traded in these markets.

JOEL CHERNOFF

Jean-Francois Theodore thinks exchange cooperation is one key to a united Europe.

In the short run, added competition should drive down the cost of trading. But some experts worry additional fragmentation of the markets in the long run might serve to increase costs and harm liquidity.

The highest stakes now rest on large block trades of non-British stocks, for which London has built an extraordinary dominance in the past decade. The questions in the minds of European traders are: Will London be able to retain its supremacy, or will Continental exchanges — particularly in Germany and France — be able to take back trades lost to London? Or will a pan-European system for trading major European stocks eventually emerge?

"If (a united) Europe is going to be a reality . . . the challenge is going to be cooperation," said Jean-Francois Theodore, chairman of the Paris Bourse.

For U.S. institutional investors, answers to these questions directly affect the cost of trading European stocks. While hard data for total transaction costs is not available, it's clear trading European stocks is an expensive proposition.

"It's probably two to three times more expensive to trade in Europe than in the U.S.," said Stan Beckers, director of BARRA International, London.

U.S. pension fund international investments keep soaring. InterSec Research Corp., Greenwich, Conn., projects international holdings by U.S. tax-exempt funds will grow to $295 billion by the end of 1995, up from $125 billion at the end of 1991 and $50 billion at the end of 1987.

Given that European stocks now comprise virtually half of the Morgan Stanley Capital International Europe Australia Far East Index, U.S. tax-exempt investors might own nearly $150 billion in European stocks in just a little more than three years.

Competition rising

While the London Stock Exchange claims it handles 95% of all cross-border trading activity in European stocks — a number its critics say is highly inflated — exchanges throughout the Continent are fighting to repatriate trades through a variety of measures: improving clearance and settlement procedures; trimming or dropping transaction taxes; eliminating fixed commissions; installing new, computer-driven trading systems; and making it easier to transact block trades.

Some Continental exchanges are starting to meet with success. The Frankfurt Stock Exchange's screen-based IBIS system, for example, has garnered 20% to 30% of the trading in German blue-chip stocks in its 17 months of operation. Trading in German stocks in London fell to less than 10% of volume last year from about 12% in 1990, German officials say.

The fight over market share also has led to a raging debate in international equity circles between the pros and cons of London's dealer market, a NASDAQ-type system in which investors obtain quotes from dealers who make markets in different stocks, vs. the highly automated order-driven systems used in Paris, Madrid, Lisbon and Brussels that match buy and sell orders in a central market.

"It's become a point of religion, really," said George Hayter, formerly managing director of the London exchange's trading markets division and now a private consultant on trading systems.

Meanwhile, over-the-counter trading in European stocks is a growing threat to the exchanges. As much as 43% of total European Community turnover in equities may be unrecorded or traded off-exchange, according to a European Federation of Stock Exchanges survey cited by the Bank of England. Others, however, say the figure is nowhere near that high.

The upshot is that London's vaunted position as the center for institutional cross-border trades might be threatened. "We're worried London will become complacent with its pre-eminent position," said Peter Moon, investment manager for British Airways PLC's 4 billion pound (about $8 billion) pension fund and chairman of the National Association of Pension Funds' stock exchange affairs committee, London. "Complacency is the danger."

London's historic role

British investors tend to be chauvinistic about London's role as a financial center. "The natural center is London, as a matter of history," said Howard Stainsby, head trader at Henderson Investment Management Ltd., London.

In 1773, English brokers formally adopted the name "Stock Exchange." It wasn't until 200 years later, however, that British brokers faced stiff competition from foreign firms. In 1979, exchange controls were lifted, enabling British pension funds to invest their money abroad. The British brokers lacked adequate capital to compete with foreign firms until 1986, when the "Big Bang" enabled domestic and foreign banks and securities firms to buy British brokers. Also, fixed commissions were abolished.

The London Stock Exchange's emergence as the international center of cross-border trading, however, only became clear after it created SEAQ International in 1985 from what had sprouted up as an OTC market.

Like SEAQ, its sister system for British stocks, market makers offer competing bids for stocks in 680 non-U.K. companies. Market makers are obliged to trade within the bid-ask spread, up to the size offered. But trades done by large institutions often are done at a negotiated price within the spread.

London's supremacy in block trades became apparent quickly. In the past two years, the London Stock Exchange — the world's third largest stock exchange — traded nearly as much in foreign stocks as in British stocks.

In 1990, London accounted for 54% of turnover for Swedish shares and 51% for Dutch shares relative to trading on the home exchanges, according to the Bank of England. For other countries, it accounted for 26% of French shares trades, about 20% for Italian and Spanish shares, 29% for permanently traded Swiss shares, and 12% for German shares. But for many major European stocks, SEAQ International provided the majority of trading — a fact that often rankled home market officials.

Officials on the Continent, however, say stock prices are set in the home country, and trading in London grinds to a halt when the home market is shut. "The liquidity of French stocks is in Paris, not anywhere else," said Pierre Fleuriot, chief executive at the Commission des Operations de Bourse, Paris, the French securities market regulator.

Continental response

Determined to counter the trend, rival European capitals have taken strides to become more competitive and recapture at least some of the trading that has migrated to London. (British officials stress, however, they have helped increase total volume by enhancing liquidity.)

One of the key areas where some Continental markets surpass London is in clearance and settlement.

The Frankfurt Stock Exchange provides settlement within two days of the trade (it can go up to five days for foreign investors). Similarly, the Paris Bourse has made a hefty investment in its RELIT clearance and settlement system. In March, the settlement period was trimmed to three days after the trade from five. Previously, trades had settled anywhere from once a week to once a month.

London, meanwhile, is at a significant disadvantage, at least for now. It settles transactions only after two-week account periods.

Southern European markets tend to be more expensive because they still use physical certificates and are only gradually converting to paperless depository institutions, said Andrew Osborne, vice president, Chase Manhattan Bank, London.

While Portugal and Spain are in the process of switching to electronic systems, northern European markets such as France, Germany, the Netherlands, Switzerland and the Scandinavian countries have central depositories in place, he noted.

Increasingly, risks incurred from slow clearance and settlement are viewed as a negative. "We are quite clear that the '90s will be the decade of risk reduction," said Rudinger von Rosen, managing director of the Frankfurt Stock Exchange.

"People will say that the high cost is not the front end but the back end," explained Harald Schlawin, senior vice president, Deutsche Bank AG, Frankfurt. High settlement costs "will kill you," he added.

The London Stock Exchange's long-delayed TAURUS settlement system should end its problems, eventually shrinking the settlement period to three days after the trade. Plagued by a series of regulatory delays and problems in the security system provided by IBM Corp., exchange officials hope the system will be running in the second half of 1993.

Continental exchanges also have abolished fixed commission schedules (France, Spain and the Netherlands) and reduced or eliminated transaction taxes in order to become more competitive.

But the so-called stamp duty that applies to domestic transactions remains a major stumbling block for some exchanges, especially because those taxes do not apply if the trades are made through London.

French officials and brokers chafe at the stamp duty of 30 basis points on trades up to 1 million francs and 15 basis points thereafter. "As long as we have the stamp duty, we will not be competitive," said Francois Bacot, chief executive, Bacot-Allain, the Paris brokerage subsidiary of Warburg Securities.

London itself has a stamp duty of 50 basis points on purchases of

See **Europe** *on page 18*

A snapshot of world markets

Country (major index)	Stock market cap (U.S. $billions)[1]	No. of companies listed[2]	Major market return year-to-date[3]	Market p/e[4]	1991 annual turnover (as % of total market cap)[5]
Australia (ASX All Ordinaries)	144.0	1,059	-12.06	23.4	31.3
Austria	26.7	177	-13.51	24.8	na
Belgium (BEL 20)	73.3	336	4.72	13.6	na
Denmark	41.1	294	-13.25	108.9	na
Finland	13.6	65	-21.75	-7.4	na
France (CAC 40)	377.2	782	3.70	14.9	34.9
Germany (DAX)	392.0	1,243	5.67	16.3	136.1
Hong Kong (Hang Seng)	180.0	357	31.84	15.7	41.6
Italy	144.5	224	-18.36	21.6	25.0
Japan (Nikkei 225)	2,119.7	1,640	-20.33	30.2	38.9
Netherlands (CBS All-Share)	139.8	677	9.12	13.3	34.8
New Zealand (NZSE TOP 40)	15.6	198	-1.8[6]	13.5	na
Norway	21.6	112	-7.73	-15.8	na
Singapore (Straits Times)/ Malaysia (KLSE)	82.7	183/ 324	-6.05/ 13.03	17.9	na
Spain (IBEX 35)	121.7	433	-11.98	9.3	36.0
Sweden (OMX)	106.8	127	-5.76	21.5	14.0
Switzerland	216.5	551	13.69	15.1	na
United Kingdom (FT-SE 100)	1,030.1	2,460	-1.40	16.2	18.1
United States (S&P 500)	3,707.3	6,796	-0.73	23.6	37.7

1. As of 6/30/92, Morgan Stanley Capital International, New York 2. As of 12/31/91, *The G.T. Guide to World Equity Markets*
3. As of 8/31/92, Bloomberg L.P., New York 4. As of 6/30/92, MSCI 5. MSCI

PAULINE FREUND

UTILITIES
Miller/Howard Investments, Inc.
(914) 679-9166
fax
(914) 679-5862

Europe

Continued from page 17

British stocks, but that is expected to be eliminated with the implementation of TAURUS.

Screen-based trading

The move to screen-based trading also has made trading faster and more efficient in many markets. In 1986, the Paris Bourse abandoned an open-outcry system, where prices were set twice daily, and replaced it with a computerized order-driven system known as CAC. Modeled after the Toronto Stock Exchange's CATS system, orders are entered into the system and ranked by price limit, and within each limit by time of arrival.

During the pre-opening phase, investors enter orders, but transactions do not occur until the market opens at 10. The central computer calculates the opening price at which the largest number of bids and asks can be matched. Trading operates on a continuous basis until 5 p.m.

Meanwhile, post-trade data are delivered on a real-time basis, giving investors a clear picture of the most recent trades.

"The order-driven system has worked extremely well," said Graham Dick, a market maker at Cholet-Dupont, a brokerage subsidiary of Credit Lyonnais, Paris. "Spreads are tighter" and "liquidity has improved significantly," he said.

Further changes are in the works. An updated CAC will be easier to maintain and operate and will facilitate communications between brokers and the system, said Patrick Lacombe, a consultant at Andersen Consulting, a unit of Arthur Andersen & Co. S.C., Paris, which has overseen the technology move.

The German approach

Germany, with Europe's second-largest amount of stock capitalization, has taken a different approach to overhauling its market structure.

Germany has eight separate regional stock exchanges, which are dominated by the country's huge banks. Most trading in Frankfurt, which accounts for more than 70% of all German stock trades, still is done on the floor, only between 10:30 a.m. and 1:30 p.m., with prices set once a day at noon for small trades.

The introduction of the computer-driven IBIS system by the Frankfurt exchange in April 1991 is changing that. IBIS provides continuous trading between 8:30 a.m. and 5 p.m. for stocks and bonds of the 30 blue-chip German companies in the DAX index. Geared toward institutional investors, the system relies on voluntary market-making, provides a high degree of transparency to investors and avoids paying the fee to specialists on the floor.

The system has brought back trades from London and from off-exchange transactions, said Mr. von Rosen of the Frankfurt exchange. What's more, the other regional exchanges have become heavy users of the system, with 30% to 50% of their volume on average being transacted on IBIS. The Hanover exchange directs as much as 60% to 70% of its volume to IBIS.

IBIS has its critics. The system "is relatively simple and clumsy," said Ruedi Suter, formerly head of equities for United Bank of Switzerland in Frankfurt. For example, using IBIS, a broker can only take one side of a trade at one price, and the system can't handle basket trades, he said.

Yet growth might be in the works. IBIS can be expanded to handle 120 stocks. Separately, an outside consultant has recommended the stock market go completely electronic by the mid-1990s, but that is proving to be controversial. "If you had a perfect electronic market, then you wouldn't need specialists. But there's no such thing as a perfect electronic market," said Gordon Anderson, a Scot who is in charge of global trading for Commerzbank AG, Frankfurt.

Meanwhile, Germany still has several other crucial steps to take. This fall, a long-awaited order-routing system, similar to the New York Stock Exchange's DOT system, will start up in Frankfurt. Also, a move to create a holding company for all eight stock exchanges is being considered. And given trading scandals unveiled recently, investment experts agree on the need for a securities regulator.

But the biggest challenge to German stock markets might be to serve as "the gateway to the East," Mr. von Rosen said, noting the development of stock markets in Poland, parts of former Czechoslovakia and Hungary. "The natural partner for these markets will be Germany."

The Dutch market

Adjusting to the future will not be easy for Europe's smaller markets. The world's oldest stock exchange, the Amsterdam Stock Exchange, is struggling to recapture business lost to London and off-exchange.

About 35% to 50% of trades in the biggest Dutch stocks are going to London, said Andre Willemsen, assistant general manager for CLN Oyens & van Eeghen, an Amsterdam brokerage house

See **Europe** *on page 20*

STATE STREET TAKES THE LEAD.

A leader today must provide the right combination of financial stability, technical innovation, and old-fashioned, quality service.

Add to this the commitment to keep pace with investors who are now doing business around the clock and around the world.

At State Street, servicing financial assets is our primary line of business, so, frankly, we push harder.

DELIVERING FINANCIAL ASSET SERVICES WORLDWIDE.

With our Global Horizon® array of services, we are meeting the requirements of today's international investors with precision and timeliness.

This might mean custody, foreign exchange, or international securities lending. Or perhaps asset management or retirement services. Whatever the need, State Street is there and well-prepared.

Can you achieve your investment goals without this kind of leadership and service?

Tell us what you need.

Boston 617-786-3000
New York 212-612-3000
Los Angeles 213-955-7950
Toronto 416-362-1100
Montreal 514-985-5778
Cayman Islands 809-949-6644
London 44-71-416-2500
Paris 33-1-44-13-90-70
Brussels 32-2-219-8710
Luxembourg 352-46-40-10-1
Munich 49-89-126950
Tokyo 81-3-3214-1771
Hong Kong 852-840-5300
Sydney 61-2-963-8411
Wellington 64-4-499-3898

State Street

© Copyright 1992 State Street Bank and Trust Company. Member FDIC.

Sentinel Partners II, a partnership for tax-exempt investors, has acquired:

Sentinel

BROOKFIELD APARTMENTS

Salt Lake City, Utah

$3,875,000

Sentinel Real Estate Corporation
1290 Avenue of the Americas
New York, NY 10104
(212) 408-2900

Europe

Continued from page 18

owned by Credit Lyonnais.

Dutch banks and brokers are not able to take big positions, so institutional business went to London, explained Joop de Waij, managing director, Bank van Haften Labouchere NV, Amsterdam.

To win back those trades, the exchange is experimenting with allowing banks to bypass specialists on the floor for pre-matched trades.

But that generated a new problem: If the specialist didn't get paid, neither did the Amsterdam Stock Exchange, which, like its European counterparts, is installing expensive new technology. So the exchange altered the basis for charging market makers to a quarterly assessment based on market share instead of trades going through the floor. In response, five major foreign securities firms are complaining they are being subsidizing specialists when the firms are trying to return business to the exchange.

"All of us are struggling. We have a rather heavy overhead," said B.F. Baron van Ittersum, chairman of the Amsterdam Stock Exchange and the European Federation of Stock Exchanges.

Meanwhile, the Amsterdam exchange will ask Dutch institutional investors what their needs are. "If our institutions say they want a quote-driven system, like London, we will copy it," Baron van Ittersum said. The Amsterdam market should be able to provide the same service cheaper because it employs bearer shares, not registered shares as in the United Kingdom, he added.

London's dealer market

London's dominance stems in large part from the ability of its dealers to take the other side of trades and provide immediacy to investors. Under its system, eight or 10 dealers may agree to support a stock, and thus provide bid-ask spreads on SEAQ or SEAQ International. Thus, they must buy stocks at the bid or sell at the ask up to the size listed on the screen.

This quote-driven system sets London apart from the other exchanges. Some argue the British system is more expensive than order-driven markets because the dealer always is taking his cut. Data also reveal spreads are much wider in SEAQ International than in home markets.

When consultants and academics look below the surface, they find the difference is much less than it appears. For one thing, large investors typically trade within the spread in London; on order-driven markets, the spread represents the difference between the best available buys and sells.

A large trade is much more difficult to handle on the Continent.

"At first sight, SEAQ International doesn't appear to be attractive. But it has a depth that local markets don't have," said BARRA International's Mr. Becker.

A draft paper by Ailsa Roell, a London School of Economics professor, found spreads are much tighter on the Paris exchange than those available for the same French stocks traded in London. But the spread widens dramatically for larger deals, and there might not be another side to a trade beyond a certain size.

Transparency debate

London's dealer system does comes with a price: There is minimal "transparency" to investors after a trade is made. That is, unlike Paris, for example, where data on trades are made public immediately after transactions, in London information on large trades in British stocks is released after 90 minutes. For non-U.K. stocks, price and volume data are published the following day on an aggregate basis.

If trades were published as soon as they were made, dealers would widen spreads because they would fear competitors would move the price away from them, making it tougher to unwind their positions, London supporters argue. Wider spreads and less willingness to commit their own capital would drive up costs for investors, they say. "If you insist on immediate disclosure, you actually destroy liquidity in the system," Mr. Hayter said.

If market-makers' positions are threatened by immediate transparency, they simply will shift off-ex-

See **Europe** *on page 22*

A COMMITMENT TO EXCELLENCE

At Twentieth Century we strive to offer the best 401(k) administrative services and investment options possible. It's more than a promise, it's a commitment.

Twentieth Century Services' state-of-the-art recordkeeping system features daily fund valuation. This means you get daily transfers; fast, accurate transaction processing and timely participant statements. Add to this a record of solid investment performance from Twentieth Century's family of no-load mutual funds, and you truly have a commitment to excellence.

To learn more about us, please call **1-800-345-2021** and ask for Institutional Marketing and Service. We'll send you an information kit and prospectuses, including charges and expenses. Please read them carefully before investing.

TWENTIETH CENTURY

© 1992 Twentieth Century Services, Inc.

P.O. Box 419385
Kansas City, MO 64141-6385
1-800-345-2021 • 816-531-5575

Twentieth Century Securities provides institutional marketing for the Twentieth Century family of mutual funds.

SOUTHWEST CAPITAL GROUP
Incorporated

Has Changed Its Name to

SECURITY CAPITAL GROUP
Incorporated

Security Capital Group is actively engaged in the acquisition, creation and management of highly-focused asset based real estate corporations designed to ultimately provide major financial institutions liquidity and real-time pricing in public entities traded on major stock exchanges.

William D. Sanders, *Chairman*, Security Capital Group Incorporated
Thomas G. Wattles, *Managing Director*, Security Capital Industrial Advisors Incorporated
Jill F. Wilson, *Managing Director*, WilsonSchanzer, Inc.
Richard B. Stearns, Jr., *Managing Director*, Security Capital Group Incorporated
James H. Polk, III, *Managing Director*, Security Capital Funding Group Incorporated
Kay D. Schanzer, *Managing Director*, WilsonSchanzer, Inc.
C. Ronald Blankenship, *Managing Director*, Security Capital Group Incorporated
David C. Dressler, Jr., *Managing Director*, Southwest Multifamily Advisors Incorporated

141 E. Palace Avenue • Santa Fe, New Mexico 87501 • (505) 982-9292
399 Park Avenue • New York, New York 10022 • (212) 326-9292

Europe

Continued from page 20

change, warned Sir Andrew Hugh Smith, chairman of the London Stock Exchange. Trying to keep business from going off-market is "rather like trying to close your hand on water," he said.

Supporters of the London exchange say the British system provides maximum pre-trade disclosure, as opposed to the post-trade disclosure provided elsewhere. "When you have a competing market-maker system where they are putting prices up on the screen, it is telling you something about what the next price is," said Andrew Threadgold, chief executive of PosTel, which manages the 20 billion pound ($40 billion) pension assets for British Telecom and the British Post Office.

British officials also say market makers have lost money in London since Big Bang, until showing a modest return in 1991. The only reason for providing market-making services is to obtain access to the order flow, which is critical for proprietary trading, dealers maintain.

But some are suspect of their accounting. British Airways' Mr. Moon said British securities firms' overhead still is laden with too many analysts — who now are being enlisted to support the corporate finance side of their houses, and are less available to clients. "And we're being forced to pay for that," he protested.

EC directive

The question of transparency became a key stumbling block to issuance of the European Community's investment services directive, a set of minimum standards that will enable European money managers to conduct business in all EC countries. The directive was announced in late June after years of haggling.

The result was a political compromise that one European stock market official decried as "lunatic": Every two hours, exchanges will have to unveil for each stock the weighted average price, highs and lows and volume for each stock during a preceding six-hour period, subject to a two-hour delay. Also, every 20 minutes, subject to a one-hour delay, they have to release the weighted average price with highs and lows but without volume figures.

Under pressure from London, the directive also provides an ambiguously worded exception permitting delays or suspension of public disclosure in very large trades or for thinly traded stocks or when exceptional market conditions apply.

The result: London's hegemony is unthreatened by the directive. Yet it poses the direct problem of a "race to the bottom" if other European stock exchanges ease up disclosure standards.

U.S. officials argue transparency has not harmed U.S. markets, such as the dealer-driven NASDAQ, while providing greater protection to investors, increasing market integrity, curbing abuses such as front-running and thus enhancing liquidity.

"The chimerical distinction between dealer and auction market is a convenient rationalization for subsidizing market makers," said Brandon Becker, deputy director of the U.S. Securities and Exchange Commission's division of market regulation, Washington.

See **Europe** *on page 23*

JOEL CHERNOFF

Rudinger von Rosen expects risk from slow clearance to be reduced during the 1990s.

Society Ameritrust

PRISM™ DISCOVER A NEW **DIMENSION** IN EMPLOYEE COMMUNICATION FOR **401(k)** PLANS.

A COMPREHENSIVE APPROACH
As a turnkey 401(k) management program designed to unburden benefits managers, PRISM offers a thorough program of employee communication that is clear, convenient, and effective.

ENROLLMENT SEMINARS
Meetings with prospective plan participants are conducted by our professionals using state-of-the-art techniques to present the advantages of your plan persuasively for maximum enrollment.

FREE MATERIALS
All necessary materials – detailed plan overview, descriptions of investment options, enrollment forms, and more – are provided through PRISM at no extra charge.

TRUST TALK
PRISM also provides ongoing communications via Trust Talk, an automated telephone inquiry system designed to answer participants' questions about their accounts.

PRISM™ *A Multi-Faceted Program of* **401(k)** *Plan Management*

FLORIDA *813-229-8003 • Naples • Palm Beach Gardens • Tampa* **INDIANA** *317-464-8307 • Elkhart • Indianapolis • Kokomo • South Bend* **MICHIGAN** *216-689-5338 • Ann Arbor • Sturgis* **OHIO** *216-737-8450 • Akron • Ashtabula • Canton • Cincinnati • Cleveland • Columbus • Dayton • Hamilton • Mahoning Valley • Toledo* **TEXAS** *1-800-933-4747 • Austin • Corpus Christi • Dallas • El Paso • Fort Worth • Houston • San Antonio • Sherman • Waco • Wichita Falls*

Europe

Continued from page 22

Nevertheless, even the strongest backers of transparency have found too much disclosure can be harmful. As of May 1, the Paris Bourse's CAC system stopped identifying brokers on trades, as it made it difficult for them to unwind their positions.

A much more sweeping set of proposals that would ease transparency rules for block trades in Paris is being scrutinized by French regulators. One proposed change would alter current rules that effectively cause market makers buying blocks to disclose their positions: now they are forced to first buy out all existing limit orders seeking prices higher than the one negotiated on the block trade. When the limit orders are taken out, and disappear from the screen, competitors know a big block has been bought and at what price.

Even if the proposals are approved, French securities firms will have to adopt more of a risk-taking culture, Paris brokers said.

Future of European markets

As markets are shifting more toward dealer markets for block trading and toward auction markets for smaller-cap stocks, hybrid markets are emerging. "In a very rapid way, we are seeing convergence," said Baron van Ittersum.

The growth and concentration of institutional trading led the London Stock Exchange to propose in early 1991 the creation of an "interprofessional market." There, institutional investors would trade stocks of the largest European companies, while retail investors would go to local markets.

"I think the European marketplace would be greatly improved if we could have all the major securities houses trading through the same market in the major European countries," said the LSE's Sir Andrew.

But this proposal landed with a thud, as Continental exchanges perceived London trying to lay a permanent claim to cross-border trading. Meanwhile, London and Frankfurt blocked a separate EC project, known as Euroquote, which would have linked EC exchanges, providing company news and share price information.

The dynamics might be shifting. "There are signs now that the London Stock Exchange is prepared to talk to other major exchanges in Europe," particularly Paris, Madrid and Amsterdam, about developing a more coordinated approach. Baron van Ittersum said.

"We all fully recognize the need for the European markets to harmonize their network for professionals. But whatever comes about, it should be a joint approach. It can never be one exchange dictating to the others how to do it," he said.

Paris' Mr. Theodore agrees on the need for greater cooperation, saying the main threat comes from off-exchange trading. But he had not heard any details from London. "I have heard the favorable tune, but I haven't heard the music," he said.

"In time, there will be one, pan-European equity market," said PosTel's Mr. Threadgold. ■

Pensions & Investments will take a look at some of corporate America's highest and lowest paid chief executive officers in the Sept. 28 issue.

REAL ESTATE OFFER

Major Defined Contribution Plan Offers to Qualified Buyers an Opportunity to Acquire Units in Three Leading Closed-End Funds Totaling Approx. $24 Mil.

The Well-Known Managers of the Real Estate Funds Have a Combined Total of $6 Billion in Real Estate Assets Under Management

To Request Information Please Contact By September 28:

G. L. Smith
Trust Annuity Plan
1625 Massachusetts Avenue, N.W., Suite 550
Washington, D.C. 20036
202-332-7300

Fund Information Will Be Made Available By October 1
Sealed Bids Must Be Received By November 9

This Does Not Constitute an Offer in Any Jurisdiction in Which the Offer is Not Permitted Nor Does It Constitute an Offer to Any Buyer Who is Not Qualified to Participate in the Funds

A PATTERN FOR SUCCESSFUL INVESTING.

Independence One Capital Management Corporation applies a pattern recognition discipline when managing equity, fixed income and balanced accounts for high returns with low risk.

Call Barbara Baker, Director of Investment Client Services at (800) 344-3171 for information.

Independence One
Capital Management Corporation

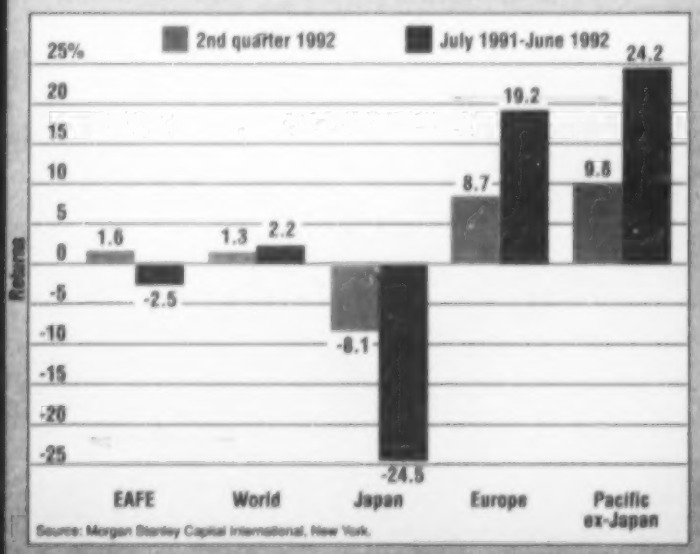
The very smallest party in the enormous foreign currency deal you've worked so hard to pull off just went under—and before you could catch your breath, you realized he's holding on to your ankle.

People who manage risk are paying more and more attention these days to *counterparty risk*. A recent EUROMONEY poll says 90% of risk managers who use off-exchange, custom-made derivative instruments, focus more on counterparty creditworthiness than they have in the past. ● Counterparty risk is notoriously difficult to assess. There's no way you can evaluate all your counterparty's counterparties. ● But there's one tool that allows you to effectively manage counterparty risk: futures and options on the Chicago Mercantile Exchange. ● The CME's clearing operation takes the other side of every trade—its performance guaranteed by more than 20 billion dollars in committed resources. Throughout each trading day, the clearing system's audit, surveillance and settlement process identifies potential problems and systematically eliminates them. ● It is a system that has never failed. Not ever. Not in the most volatile markets. Not under economic conditions far more severe than those now causing concern about counterparty risk in off-exchange products. ● And the CME's reservoir of liquidity means access to the marketplace will be there. Day in and day out. Unaffected by the health of any specific counterparty. Right now, for example, there is more than 54 billion dollars in open interest in CME currency futures and options. ● Call today for COUNTERPARTY RISK: SYMPTOMS AND SOLUTIONS. And begin to manage counterparty risk more effectively than ever. Call 1-800-331-3332 (North America, toll-free), or 071-920-0722 (London), or 03-3595-2251 (Tokyo).

CHICAGO MERCANTILE EXCHANGE®
The Exchange of Ideas.®

MSCI Worldwide Indexes

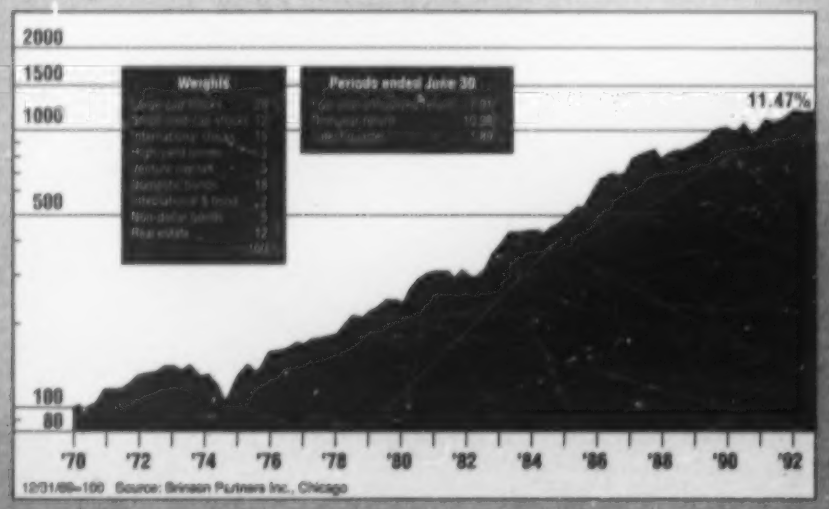
Indexes are in U.S. dollar terms without dividends re-invested



Source: Morgan Stanley Capital International, New York.

Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of nine asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.



12/31/69=100 Source: Brinson Partners Inc., Chicago

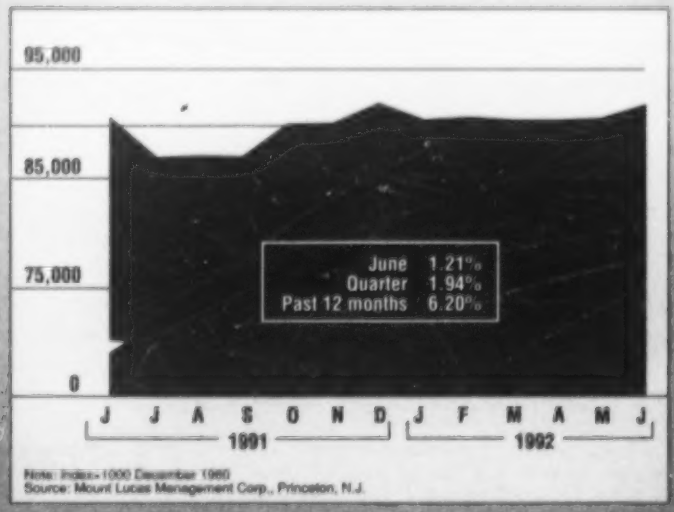
Russell indexes by economic sector

Second quarter 1992 returns

	Russell 3000	Russell 2000	Russell 1000
Consumer discretionary	-3.4	-12.8	-2.6
Financial services	5.9	5.5	6.0
Integrated oils	10.3	3.3	10.3
Other energy	5.2	3.5	6.3
Technology	-1.8	11.1	-0.9
TOTAL	0.9	-6.8	1.4

MLM Index

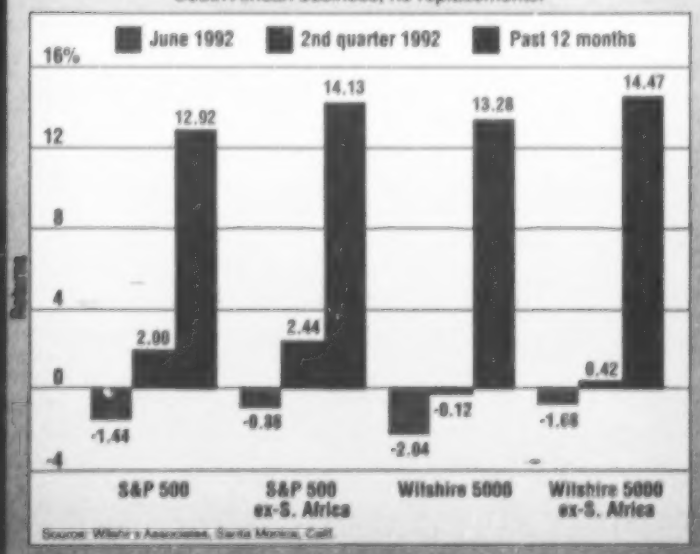
The MLM Index is an unleveraged index used as a benchmark to evaluate commodity futures investments. Periods ended June 30.



Note: Index=1000 December 1980
Source: Mount Lucas Management Corp., Princeton, N.J.

South Africa Free Index

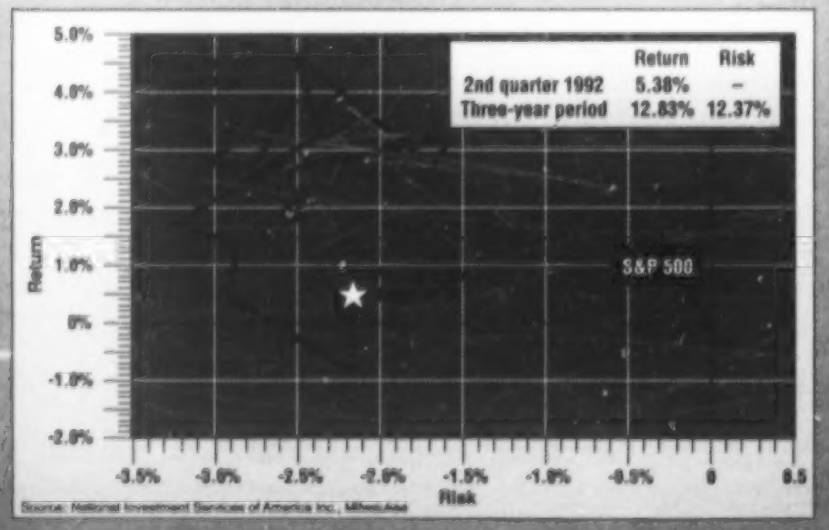
Ex-S. Africa excludes stock of companies with an equity stake in a South African business, no replacements.



Source: Wilshire Associates, Santa Monica, Calif.

An Efficient Index

The Efficient Index is an S&P 500 portfolio optimized for the lowest volatility during the previous two-year period, subject to four constraints. The line represents the return and risk figures for the optimized index relative to the S&P 500 during rolling three-year periods.



Source: National Investment Services of America Inc., Milwaukee

GRAPHICS BY KIMBERLY MART

Rebound only temporary

Guaranteed contract rates head downward in quarter

By Fred Williams

After a brief rebound in the first quarter, rates on guaranteed contracts resumed a months-long downward trend during the second quarter.

GIC rates declined 30 to 81 basis points depending on the contract term and amount, said Peter Bowles, president of Fiduciary Capital Management Inc., Woodbury, Conn.

At the end of June, rates on three-year contracts averaged 5.89% and five-year rates averaged 7.03%, compared with 6.66% and 7.64% at the end of March, said Mr. Bowles.

The drop in GIC rates reflected further actions by the Federal Reserve Board to push medium- and longer-term interest rates down, said John Knight, president of Lamberson Knight Inc., Short Hills, N.J.

Mr. Knight said some buyers slowed GIC purchases during the quarter "to see if there was going to be another blip in rates."

He said there was increased interest in floating-rate products to avoid locking in lower long-term rates. But, he said, "even with floating-rate products, rates are so low it can hurt the overall yield in the (401k) plan."

The following insurance company rate quotes on bellwether five-year, single-deposit, simple-interest, $1 million GICs were provided by Lamberson Knight Inc., Short Hills, N.J. The first figure is for June 30, 1992; the second is for March 31, 1992.

- Allstate Life Insurance Cos., Northbrook, Ill.: 6.88%; 7.53%.
- CNA Insurance Co., Chicago: 6.64%; 7.29%.
- Confederation Life Insurance Co., Atlanta: 6.99%; 7.72%.
- Hartford Life Insurance Co., Hartford, Conn.: 6.55%; 7.3%.
- John Hancock Mutual Life Insurance Co., Boston: 6.68%; 7.32%.
- Nationwide Life Insurance Co., Columbus, Ohio: 6.64%; 7.31%.
- New York Life Insurance Co., New York: 6.9%; 7.55%.
- Ohio National Life Insurance Co., Cincinnati: 6.87%; 7.73%.
- Penn Mutual Life Insurance Co., Philadelphia: 6.8%; 7.7%.
- SAFECO Corp., Seattle: 6.8%; 7.48%.
- State Mutual of America, Worchester, Mass.: 6.94%; 7.59%.

William M. Mercer Asset Planning Inc., Deerfield, Ill., surveys insurance companies for rate quotations and provided the following summary of various bullet GICs for June 1992:

- Three-year, $1 million, compound: high, 6.8%; low, 4.88%; average, 6.04%.
- Three-year, $1 million, simple: high, 6.65%; low, 4.9%; average, 5.95%.
- Five-year, $1 million, compound: high, 7.62%; low, 6.06%; average, 7.14%.
- Five-year, $1 million, simple: high, 7.55%; low, 5.95%; average, 7%.
- Seven-year, $1 million, compound: high, 8.11%; low, 6.54%; average, 7.55%.
- Seven-year, $1 million, simple: high, 7.85%; low, 6.44%; average, 7.36%.
- Three-year, $5 million, compound: high, 6.8%; low, 5.18%; average, 6.12%.
- Three-year, $5 million, simple: high, 6.65%; low, 5.2%; average, 6.03%.
- Five-year, $5 million, compound: high, 7.72%; low, 6.35%; average, 7.23%.
- Five-year, $5 million, simple: high, 7.55%; low, 6.26%; average, 7.06%.
- Seven-year, $5 million, compound: high, 8.17%; low, 6.85%; average, 7.66%.
- Seven-year, $5 million, simple: high, 6.92%; low, 6.75%; average, 7.45%.

Mercer also surveys banks for quotes on their guaranteed instruments. Rates on one- and three-year bullet BICs for June were:

- One-year, $1 million, compound: high, 4.54%; low, 3.86%; average, 4.21%.
- One-year, $1 million, simple: high 4.7%; low, 3.97%; average, 4.29%.
- Three-year, $1 million, compound: high, 6.07%; low, 5.27%; average, 5.77%.
- Three-year, $1 million, simple: high, 6.21%; low, 5.35%; average, 5.86%.
- One-year, $5 million, compound: high, 4.59%; low, 3.96%; average, 4.28%.
- One-year, $5 million, simple: high, 4.75%; low, 4.04%; average, 4.35%.
- Three-year, $5 million, compound: high, 6.15%; low, 5.37%; average, 5.84%.
- Three-year, $5 million, simple: high, 6.25%; low, 5.45%; average, 5.91%.

Schmidt Management Co., a GIC market research and consulting firm in Tulsa, Okla., has developed a guaranteed product performance measurement index. The Schmidt GIC Composite Index approximates the return of a continuous weighted investment in one- to 10-year original maturity GICs. The index shows returns, not rates.

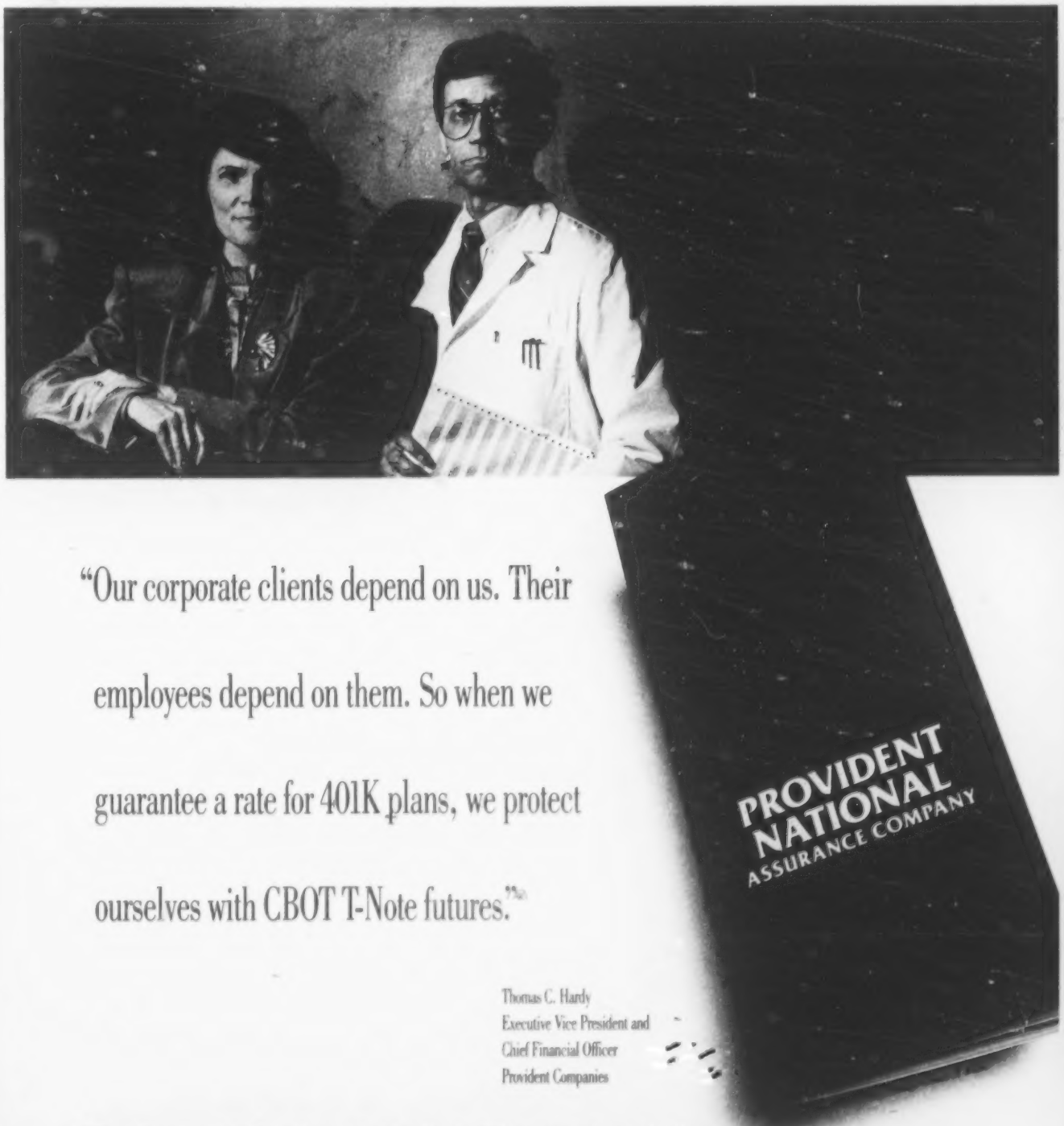
For the second quarter of 1992, the Schmidt GIC Composite Index had a total return of 2.02% compared with 0.92% on 90-day Treasury bills, −0.08% for the Standard & Poor's 500 Stock Index and 4.04% for the Merrill Lynch Government/Corporate Bond Index. ■

TIAA-CREF hires property manager

NEW YORK — The Teachers Insurance and Annuity Association — College Retirement Equities Fund hired Cushman & Wakefield Inc. as property manager of 17 State St., a 525,900-square-foot office tower in New York.

The $105 billion fund bought the building in 1990 from the William Kaufman Organization.

Cushman & Wakefield replaced a Kaufman subsidiary — Sage Realty Corp. — as property manager. ■


"Our corporate clients depend on us. Their employees depend on them. So when we guarantee a rate for 401K plans, we protect ourselves with CBOT T-Note futures."
Thomas C. Hardy
Executive Vice President and
Chief Financial Officer
Provident Companies
PROVIDENT NATIONAL ASSURANCE COMPANY
"Our clients are intelligent buyers," states Hardy. "They demand a prudently managed portfolio." After all, Provident's clients are Fortune 500 companies with multi-million dollar 401K plans. They rely on Provident's stability and its ability to manage risk. And Provident relies on CBOT T-Note futures and options. "They're our best hedge against adverse interest rate movement," asserts Hardy. "Nothing matches our risk better."
To find out how Treasury futures can help you face interest rate risk, call for a copy of "Treasury Futures for Institutional Investors" at 1-800-THE-CBOT, ext. 6252, or 1-312-435-3558, ext. 6252.
Chicago Board of Trade

Maastricht pulls on dollar

French vote to determine future for U.S., European currencies

By Anne Schwimmer

The end of the dollar's decline and the deutsche mark's rally is coming, but economists say the big question is whether this trend goes out with a bang or whimper.

The currency, stock and bond markets in Europe and the United States are holding their breath until Sept. 20, when France votes on the Maastricht treaty, which creates a unified economic European community.

If the French say "no" to Maastricht, many expect a bang in the currency markets, with its shock waves roiling the international capital markets.

A "no" vote would prompt a strong rally in marks, and a drop in value of the British pound, the French franc, the Spanish peseta, the Italian lira and the U.S. dollar, economists predicted.

This, they said, would force monetary authorities to realign the European Monetary System, devaluing pounds, francs, pesetas and lira against marks. (The dollar is not in the EMS, so it would not be a part of any structured devaluation, and would only depreciate in the open market.)

"If Maastricht goes down, then there's going to be a realignment in the European Monetary System. Everybody knows it's a done deed if the French vote down the Maastricht," said Richard B. Hoey, chief economist at The Dreyfus Corp., New York.

Even measures such as the recent $14.5 billion (10 billion European currency units), mark-denominated loan taken by the British government would weigh little against the market forces that would come into play, according to Mr. Hoey.

Indeed, some in Europe believe a realignment is justified. "Some (monetary authorities) are hoping the French vote 'no' and the thing will be brought to a head," forcing a devaluing of the pound, the lira and the peseta against the mark, noted Robert G. Dederick, executive vice president and chief economist at The Northern Trust Co., Chicago.

According to Mr. Hoey, some in Europe believe it was "a mistake not to realign the currency when the (Berlin) Wall came down."

A realignment would spell additional weakness for the already struggling non-German European stock markets, especially in the United Kingdom, Spain and Italy.

Because of the high interest rates being forced on the rest of Europe by the high German rates, "we have been going through a bad market all over Europe," said Rudi Leuthold, managing director and head of the equity investment strategy group at J.P. Morgan Investment Management Inc., London.

Mr. Leuthold said he doubts the French will vote against the Maastricht treaty, but if they do, "we would expect the initial reaction to be negative, particularly in the stock markets of Italy, Spain and the United Kingdom and also to some extent France."

According to Mr. Leuthold, in the event of another sharp rise in the mark, the French stock market will withstand the impact best of the European markets.

"We are relatively favorably disposed toward France . . . Economic conversion has been basically accomplished. (The French government has been) bringing down inflation and controlling the fiscal deficit," he said.

Here in the United States, a further drop in the dollar also could increase the likelihood of a pullback in the stock market, which already had a strong run last year.

But economists don't expect a crash like 1987s, and they predict a low dollar will stimulate exports and corporate earnings over the longer term.

"The longer the dollar stays where it is, the more it'll impact goods movement," said Richard A. Stuckey, chief economist at E.I. du Pont de Nemours & Co., Wilmington, Del.

"The stock market is vulnerable to the dollar trading down, pushing up fears of inflation, pushing up long-term bond yields," said Mr. Hoey.

But, he added, "it's not really at all like it was before the crash, because before the crash we had many years of economic expansion, a rising inflation rate, an aggressively tightening Federal Reserve and long-term interest rates that had risen over 300 basis points by the morning of the crash."

The second scenario, a French "yes" vote, would mean the world's monetary authorities likely would continue as they have been, hoping the currency imbalance will turn around soon, with little or no intervention on their part, and minimal market upset.

The central banks are tensely waiting for the U.S. and British economies to pick up and the German economy to slow down, resulting in higher interest rates here and in the United Kingdom and lower ones in Germany. Indeed, Germany's gross national product declined by 0.5% in the second quarter. A continued slowdown will spell lower German interest rates and less demand for marks and more for dollars and pounds.

While this has to happen eventually, "the central banks are hoping that the German economy slows down quickly and the U.S. economy strengthens quickly. They hope they luck out," said Dreyfus' Mr. Hoey. "Stranger things have happened."

Nonetheless, economists agree the dollar — having hit record lows against the mark, the pound and the yen — is near bottom.

But, while monetary authorities hope the trend will reverse in a calm manner if the French approve the European monetary union, some argued the world currency markets still might have a stinging surprise or two left.

"The worst case is the reverse of the pattern in 1985, where the deutsche mark collapsed on the downside against the dollar," explained Mr. Hoey. "Sometimes late in these kinds of currency moves you can have a real extreme" drop on the downside before a recovery, he said.

"It's a late bear market phenomenon, and nobody knows how extreme it gets at the end of the move," Mr. Hoey said. ■

AP/WIDE WORLD PHOTOS

The AFL-CIO wants to play an aggressive role in rebuilding the parts of South Florida severely damaged by Hurricane Andrew.

AFL-CIO

Continued from page 1

struction Trades Council, and plan additional meetings with developers in the coming weeks.

The $620 million Housing Investment Trust, begun in 1964, is a registered investment company that provides construction and permanent loans and invests in residential mortgages. Its investors mainly are union pension and other employee benefit funds.

The $200 million Building Investment Trust, formed in 1988, is a group trust that invests Taft-Hartley pension and other assets in commercial and industrial properties. The Building Trust takes equity positions and does construction and mortgage loans.

While the union funds are eager to a play a role, the state pension systems of Florida and Louisiana aren't stepping up.

"We are not actively seeking to find a way to put dollars in," said Ash Williams, executive director of the $26 billion Florida State Board of Administration. Mr. Williams said the system's proper role is to look at ways to enhance the market's private mortgage capacity, which it does through investments in mortgage-backed securities.

"We're pretty serious on our fiduciary responsibilities," said Mr. Williams. "Natural disasters or any kind of crisis are societal problems; to that extent, there are societal costs. They should not be focused on pension beneficiaries just because there happens to be an accumulation of benefits in the pension plans."

But AFL-CIO officials see a two-fold strategy in their investments — employing union workers and building America — and say the investments have proved over the years to be prudent.

"Our first and foremost responsibility is to the investors," Mr. Arnold said. "We're making no concessions on any of our financing."

In Louisiana, a spokeswoman for the $2.7 billion Louisiana State Employees' Retirement System said she knew of no role the pension fund planned to play.

Meanwhile, real estate money managers in South Florida are coming to grips with the consequences of Hurricane Andrew. Officials of Heitman Advisory Corp., Chicago, hope to reopen The Falls, a 460,000-square-foot shopping center in South Miami, by Oct. 1. Barry Schlesinger, chairman of Heitman Properties Ltd., said damage to the mall could run to $8 million, but the mall is insured. ■

Buy-out

Continued from page 3

William F. Quinn, president of AMR Investment Services Inc., which oversees the $2.5 billion American Airlines defined benefit plan.

Any further control of the actual deal-making process might endanger investors' limited partner legal status, he noted.

• Governance issues. Limited partners are asking for, and getting, the right to make certain fundamental changes in the partnerships without requiring the approval of the general partners. Before, almost any change in the partnership agreement could not be made without the blessing of the general partners. Now, AT&T's Mr. Steenberg said, a supermajority of the limited partners — which jointly controls anywhere from 60% to 80% of the partnership — can overrule a veto by the general partners in certain key decisions, such as terminating the partnership.

"When you have a supply and demand aberration as there appears to be now, it improves deal terms," said Mr. Le Bon.

"Essentially there's a two-tier market. There are partnerships that can easily raise capital and they're finding themselves oversubscribed, but on the other hand, you have the vast majority of the market having to scramble to get capital commitments," Mr. LeBon added.

"Folks are looking for quality groups," AT&T's Mr. Steenberg agreed.

One top-tier firm, Hellman & Friedman, San Francisco, has been raising money for over a year using multiple closings. Hellman & Friedman has been quietly adding to the $216 million raised by its first closing and is approaching the $900 million mark, according to Warren Hellman, general partner.

Partnerships now in the market or expected soon include: Kelso & Co., New York, which is seeking $1 billion in commitments; Hicks Muse & Co., Dallas, seeking $500 million; and Leonard Green & Partners, Los Angeles, which is seeking an undisclosed amount.

Adding to the confusion is the disintegration of pure leveraged buy-out investing into a variety of different value-oriented acquisition techniques. Hellman & Friedman, for example, does not expect to do many LBOs with its new fund.

"You don't have to raise debt if the debt is already there," noted Mr. Hellman, who sees better value in already leveraged and cash-strapped targets.

Also in competition for pension dollars are other similar equity investing partnerships. Among those are: J.P. Morgan & Co., which has raised $750 million toward a goal of $1 billion for its Corsair Partnership to take minority stakes in banks; Brown Brothers Harriman & Co., looking to raise a $250 million to $500 million fund that will take minority equity stakes in publicly traded companies; and Dillon Read & Co., which, in conjunction with J.P. Morgan, is hoping to raise $1 billion for its Allied Investment Partners L.P., which will buy friendly stakes in poor-performing companies and provide top managers as directors. ■

Eastbridge
ASSET MANAGEMENT INC.

Seasoned Professionals

Market-Tested Analytics

Rigorous Risk Control

George Hawes, Director of Marketing
(212) 756-7262

QUANTITATIVE
Fixed Income Portfolio Managers